Manitoba's Credit Unions

District structure in effect January 1, 2009

[DISTRICT 1]

Steinbach CREDIT UNION [2 BRANCHES]

[DISTRICT 2]

Assiniboine CREDIT UNION [25]

[DISTRICT 3]

Cambrian CREDIT UNION [11]

[DISTRICT 4]

Belgian-Alliance CREDIT UNION [3]
Carpathia CREDIT UNION [3]
Casera CREDIT UNION [3]
Entegra CREDIT UNION [3]
Me-Dian CREDIT UNION [1]
North Winnipeg CREDIT UNION [2]
Winnipeg Police CREDIT UNION [1]

[DISTRICT 5]

Crosstown Civic CREDIT UNION [8]
Heartland CREDIT UNION [3]
Sunova CREDIT UNION [9]

[DISTRICT 6]

Arborg CREDIT UNION [2]
Dauphin Plains CREDIT UNION [3]
Eriksdale CREDIT UNION [3]
Ethelbert CREDIT UNION [2]
Flin Flon CREDIT UNION [1]
Gimli CREDIT UNION [2]
Grandview CREDIT UNION [1]
Riverton CREDIT UNION [1]
Roblin CREDIT UNION [2]
Rorketon & District CREDIT UNION [1]
Ste. Rose CREDIT UNION [1]
Swan Valley CREDIT UNION [3]

[DISTRICT 7]

Amaranth CREDIT UNION [1]
Austin CREDIT UNION [4]
Beautiful Plains CREDIT UNION [2]
Crocus CREDIT UNION [2]
Erickson CREDIT UNION [1]
Minnedosa CREDIT UNION [1]
Portage CREDIT UNION [3]
Sandy Lake CREDIT UNION [1]
Strathclair CREDIT UNION [4]

[DISTRICT 8]

Agassiz CREDIT UNION [5]
Community CREDIT UNION [3]
Dufferin CREDIT UNION [1]
La Salle CREDIT UNION [1]
Lowe Farm CREDIT UNION [1]
Niverville CREDIT UNION [2]
Oak Bank CREDIT UNION [2]
Rosenort CREDIT UNION [1]
Sanford CREDIT UNION [2]
Starbuck CREDIT UNION [2]

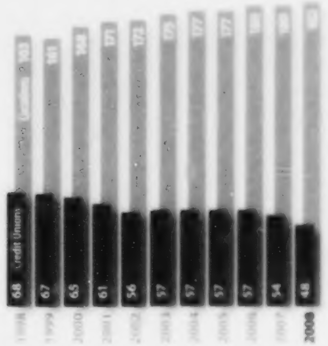
[DISTRICT 9]

Altona CREDIT UNION [2]
SunRise CREDIT UNION [12]
Vanguard CREDIT UNION [13]
Westoba CREDIT UNION [20]

Memberships

The decline in total memberships in 2008 is the result of a number of credit unions cleaning up and consolidating their databases prior to moving to a new banking system. Other evidence indicates that the number of Manitobans who belong to credit unions actually rose, however, such as CUCM research that indicates Manitoba credit unions' market share (of the total business of banks and credit unions) increased to 40.7 per cent in 2008.

Number of Credit Unions & Locations

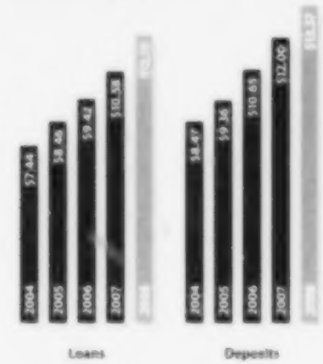


Mergers in the credit union system included two that came into effect on January 1, 2008 — Assiniboine and Buffalo (Assiniboine) and Belgian and Alliance (Belgian-Alliance).
On October 1, five credit unions in southwestern Manitoba came together as SunRise Credit Union: Cypress River, Hartney, Tiger Hills, Turtle Mountain and Virden. In addition to the merger activity, two new branches opened in 2008: a Swan Valley branch in Birch River and a Westoba branch in Winnipeg. In 67 Manitoba communities, a credit union is the only financial institution in place to serve businesspeople, producers and consumers.

System Assets

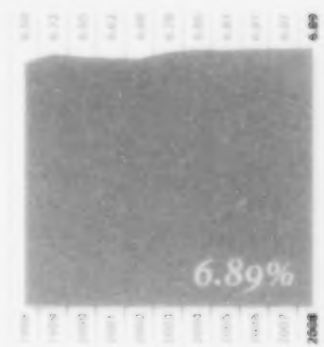
Manitoba credit unions ended the year with $14,435,568,069 in assets, an 11.9 per cent increase over 2007. Winnipeg-based credit unions account for $6.226 billion (43%) of total assets and credit unions outside Winnipeg account for $8.21 billion (57%). The Winnipeg/non-Winnipeg share is unchanged from 2007. This is the provincial credit union system's ninth straight year of double-digit growth, and assets have more than tripled in the decade since 1998.

Loans and Deposits



Total lending increased by 14.7% to end the year at $12.13 billion, while deposits grew by 11.5%, to $13.37 billion. As a result of the liquidity crisis, the deposit and loan figures for 2008 look somewhat different than usual. Ordinary, loans and deposits grow at roughly the same rate. With credit unions having healthy liquidity positions and being more willing than some other financial institutions to lend to Manitoba businesses and consumers, lending growth outpaced growth in deposits.

System Equity



Consolidated system equity grew by $115 million over the course of 2008, ending the year at $993.9 billion. This figure includes $857.3 million in credit union equity, $126.4 million held by the Credit Union Deposit Guarantee Corporation (CUDGC) and $10.2 million held by CUCM. Keeping equity levels on pace with asset growth in an environment of tremendous growth is a testament to the credit union system's commitment to safety and security for members' deposits.

Manitoba Credit Unions

serve 118 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

Altona · Amaranth · Angusville · Arborg · Ashern · Austin · Baldur · Beausejour · Belmont · Benito · Birds Hill · Binscarth · Birch River
Birtle · Boissevain · Brandon · Bruxelles · Carberry · Carman · Cartwright · Cypress River · Dauphin · Deloraine · Dominion City
Emerson · Erickson · Eriksdale · Ethelbert · Flin Flon · Foxwarren · Fisher Branch · Gimli · Gilbert Plains · Gillam · Gladstone
Glenboro · Glenella · Grandview · Gretna · Grunthal · Hamiota · Hartney · Headingley · Holland · Inglis · Inwood · Kenton · Killarney
Lac du Bonnet · Landmark · La Riviere · La Salle · Lowe Farm · MacGregor · Manitou · Mariapolis · McAuley · Melita · Miami · Miniota
Minitonas · Minnedosa · Minto · Moosehorn · Morden · Morris · Neepawa · Newdale · Ninette · Niverville · Oak Bank · Oak Bluff
Oak Lake · Oak River · Oakburn · Oakville · Pilot Mound · Pinawa · Pine Falls · Pine River · Plum Coulee · Plumas · Portage la Prairie
Reston · Rivers · Riverton · Roblin · Rorketon · Rosenort · Rossburn · Russell · St. Lazare · Ste. Rose du Lac · Sandy Lake · Sanford
Selkirk · Shilo · Shoal Lake · Souris · Sprague · Starbuck · Steinbach · Stonewall · Strathclair · Swan Lake · Swan River · Teulon · The Pas
Thompson · Treherne · Virden · Vita · Waskada · Whitemouth · Winkler · Winnipeg · Winnipeg Beach · Winnipegosis

All figures preliminary unaudited results

Where credit unions have Winnipeg and non-Winnipeg branches, the location of the home branch is used for these statistics

CREDIT UNION CENTRAL OF MANITOBA [CUCM]

is the trade association for the province's 48 autonomous credit unions. As prescribed by *Manitoba's Credit Unions and Caisses Populaires Act*, CUCM manages liquidity reserves, monitors credit granting procedures and provides financial and other services to credit unions including banking, treasury, corporate governance, government relations, representation and advocacy, and legal services. As well, credit unions have access to payment and settlement systems, human resources, research, communications, marketing, planning, lending, product/service R&D and business consulting through CUCM. Manitoba credit unions jointly own CUCM and representatives from nine provincial districts sit on its board of directors. CUCM is financed through assessments and fee income derived through its operations.

In late September, Credit Union Central of Manitoba (CUCM) signed a Memorandum of Understanding (MOU) to pursue amalgamation discussions with the centrals of Saskatchewan and Alberta to create a single, regional central.

This announcement came just 11 months after dialogue with the same partners on the same topic had ended. At the time, there were simply too many differences in the way the three centrals operated. We stayed in communication with each other over the following months, though, during which time a number of significant events occurred.

All provincial centrals — with the exception of Manitoba — were actively pursuing amalgamations. The centrals of Ontario and B.C. merged to form Central 1, the Atlantic centrals were planning to reorganize as a regional central, and Alberta and Saskatchewan together expressed the desire to find merger partners, with CUCM as a preferred partner. Finally, a merger in Alberta that created a credit union with more than half of that system's assets prompted us to consider the implications for CUCM if a similar merger were to occur here.

In mid-summer, CUCM's board and senior management decided to rejoin the discussions. After resolving a number of the operating principles and strategies that proved to be obstacles in 2007, we signed the MOU with Alberta and Saskatchewan.

Clearly, the second tier of the co-operative financial services environment in Canada is changing as it is compelled to respond to a constantly evolving financial services environment and shifts in the credit union landscape. Although individual centrals may in the shorter term be able to effectively meet the needs of their province's credit unions, it is difficult to conceive that this will continue to be the case over the longer term.

CUCM's options were to remain independent for as long as we were able to keep meeting the needs of Manitoba credit unions — and then join one of the regional centrals later, when we no longer could — or to work with Alberta and Saskatchewan, now, to ensure that we have an equal say in the development of a new central from the beginning.

The decision to proceed fits within CUCM's scenario planning process, which was introduced in 2005. Through the process, we developed scenarios of what the system would look like in 2015 (depending on the pace of growth, mergers and change outside Manitoba), then examined the potential impact of each scenario on CUCM and the wider system. Indeed, scenario planning made the MOU decision much easier because it had helped us define what would drive CUCM to respond to change — and the events that unfolded in 2008 were among those drivers.

Although individual centrals may in the shorter term be able to effectively meet the needs of their province's credit unions, it is difficult to conceive that this will continue to be the case over the longer term

We also had the benefit of 12 guiding principles developed during the 2007 discussions with Alberta and Saskatchewan. The principles state that any new business model should embrace the co-operative principles and be consistent with the values and principles of CUCM and Manitoba credit unions, and that a new business model has to create overall value to all Manitoba credit unions and facilitate their long-term viability, growth, revenue and operating potential. They also say that any amalgamation has to be fair to all partners in the distribution of economic benefits, fair to all credit unions in terms of representation and governance, and that there must be strong consensus among credit unions in choosing the most appropriate model. Finally, an amalgamation would not be allowed if it were to have a negative impact on the public's perception of Manitoba credit unions.

With the MOU, the three centrals agreed on a vision, strategic approach, operating principles, and implementation and integration principles. We also developed an outline for a business strategy that will analyze and demonstrate how the new organization would benefit member credit unions. Both directly and through their representatives on CUCM's board, credit unions will provide their feedback on the business strategy and then determine whether the benefits are compelling enough to vote in favour of an amalgamation. The vote will take place in late 2009 or early 2010.

Every year, CUCM has undertaken new initiatives, large and small, to deliver on its vision of "providing leadership and ensuring the delivery of high-value products and services that help credit unions achieve their vision." A Prairie Central would bring unprecedented change, but CUCM's board and management — led for the past decade by CEO Garth Manness — would not be entertaining the idea if we did not believe that evaluating the creation of a new Prairie Central was a prudent step to take in delivering on our vision.

RUSSELL FAST
Chairman, Board of Directors

(pictured left to right)

DISTRICT 1 [CHAIR]
Russell Fast
Executive Committee

DISTRICT 8 [FIRST VICE-CHAIR]
Alexander (Sandy) Wallace
Committees: Executive,
Level IV System Credit [CHAIR]

DISTRICT 9 [SECOND VICE-CHAIR]
Wayne McLeod
Executive Committee

DISTRICT 2
Al Morin
Audit/Conduct Review Committee

DISTRICT 3
Rose Marie Couture
Committees: Investment,
Level IV System Credit

DISTRICT 4
Dave Abel
Committees: Investment [VICE-CHAIR],
Audit/Conduct Review [VICE-CHAIR],
Level IV System Credit [VICE-CHAIR]

DISTRICT 5
Peter Enns
Investment, Audit/Conduct Review

DISTRICT 6
Alex J. Eggie
Committees: Investment [CHAIR],
Audit/Conduct Review [CHAIR],
Resolutions & Bylaws [CHAIR]

DISTRICT 7
Reg Buss
Level IV System Credit Committee

The Manitoba credit union system continued its decade-long strong performance in spite of the turmoil that swept much of the global banking world in 2008.

In Manitoba, where neither CUCM nor credit unions were exposed to the toxic mortgages that were at the root of the economic slowdown, credit unions retained their strong financial positions and their reputations as safe, reliable places for Manitobans to hold their deposits. With the added incentive of highly competitive rates, Manitobans grew credit union deposits by 11.5 per cent to end the year at $13.4 billion.

Relative to other financial institutions, credit unions had money to lend — and continued to lend it at rates that were often much lower than their competitors. Over the course of the year, loans grew by 14.7 per cent to $12.1 billion.

Total assets grew by 11.9 per cent to reach $14.4 billion, and credit union equity ended the year at $857 million, or 5.94 per cent of assets — an increase of $90 million over 2007 and further evidence of the strength and resilience of the Manitoba credit union system.

This, the system's ninth straight year of double-digit growth, brought the average 20-year growth up to 9.41 per cent and credit unions' market share as a percentage of total bank and credit union assets, at 40.7 per cent, has never been higher. It is interesting to note that market share mirrors credit unions' physical presence in the province: 46 per cent of all retail banking branches in the province are credit unions. The total number of credit union branches increased by two in 2008, with new branches in Birch River (Swan Valley) and Winnipeg (Westoba). There were also three amalgamations involving nine credit unions in 2008, and another involving four credit unions will take effect in 2009, as will a merger between a caisse populaire and credit union in Western Manitoba.

Between credit unions' positive growth numbers, the financial stability of the system as a whole, their competitiveness on rates and products, and a provincial economy that is relatively healthy in comparison to overall Canadian growth, the outlook for Manitoba credit unions remains very positive and they are well positioned for the economic slowdown we are experiencing.

The role of Credit Union Central of Manitoba is to support that growth and the activities credit unions deem to be in the best interests of their members. For CUCM, this means continually offering quality products and services at competitive prices, and being open and responsive to issues that arise and opportunities that present themselves from time to time.

In addition to responding to developments in 2008 within the regional and national credit union systems and the global banking world, CUCM continued to maintain its focus on operations and the work required to support credit unions, including changes in the marketplace, the credit union landscape and the regulatory environment. The Prairie Central discussion was just one of many extraordinary matters that CUCM dealt with in 2008.

One issue that grabbed the attention of Manitoba credit unions and the wider system in 2008 was liquidity management. While the global credit crisis had a significant impact on CUCM as the system's liquidity manager — forcing it to issue more capital calls than usual to credit unions in order to comply with fair value accounting rules — the financial crisis generated new opportunities for holders of liquidity that allowed CUCM to pay record returns to credit unions.

In the area of consulting services — providing non-core, non-trade products and services to credit unions — gross revenue was up in human resources consulting, business consulting, credit union planning, Printing & Supply, and marketing and communications. This performance shows that, even as the number of credit unions decreases, demand for CUCM's services remains as strong as ever.

Credit unions' market share as a percentage of total bank and credit union assets, at 41.4 per cent, has never been higher

Technology continues to drive change at CUCM. In 2008, the company implemented its long-studied treasury management system. Treasury Services and Controllers personnel worked with Misys Corporation to roll out Opics — a robust, integrated system that houses the liquidity pool investment portfolio and credit union treasury products. The new system will deliver valuable features to credit unions and put robust tools in the hands of the people who invest and manage liquidity on their behalf. Banking & Payment Services also launched a new product in 2008 — a statement printing and processing service that will deliver significant value to Manitoba credit unions and CUCM.

In addition to the Prairie Central discussions, CUCM continued to work with partners in the wider system throughout the year. It supported the National Node Coordination Committee's (NNCC) Chip Migration project with personnel who sat on the steering committee and the ATM, migration and communications subcommittees. The NNCC represents all credit unions in Alberta, Saskatchewan and Manitoba, as well as some from Ontario and the Atlantic region, that use the national node for ATM and point-of-sale switching through Everlink. In addition to their work with the committees at the national level, CUCM struck a Chip Advisory Committee of credit union personnel to help navigate the migration to chip technology. CUCM also continued to work closely with and monitor the system's relationships with Celero and Everlink.

In mid-2008, the Workers Compensation Board (WCB) proposed adding workers and employers in the financial services industry to the rolls of those requiring mandatory WCB coverage. In its role as credit unions' advocate, CUCM presented its concerns with the plan to the WCB and ministers and bureaucrats in the provincial government, successfully arguing that the mandatory WCB coverage would duplicate what is already in place in the Manitoba credit union system. Individual credit unions supported CUCM with their own lobbying efforts.

In short, 2008 was a busy and highly productive year for CUCM. Every employee of the company was involved in helping fulfil CUCM's vision of serving Manitoba's credit unions by "providing leadership and ensuring the delivery of high value products and services that help them achieve their vision." It is a vision that CUCM employees are intimately familiar with: in annual surveys, they consistently "strongly agree" with statements regarding their understanding of the company's vision and mission — who we are here to serve, the clarity of our roles, and our need to stay relevant to the needs of credit unions.

In normal times we ask and expect a lot from our employees. In challenging times we need more. We received more this year, and are very thankful for the commitment and experience of the people who work at Credit Union Central of Manitoba.

I would like to thank the board of directors and Russ Fast for their guidance and direction over the past year. We are moving through a time of change into an uncertain future. We are doing so with a strong financial footing, quality people and a very strong credit union system. We look forward to the challenge with great anticipation and expectation.

GARTH MANNESS
President and Chief Executive Officer

(pictured left to right)

PRESIDENT *and* CHIEF EXECUTIVE OFFICER
Garth Manness

VICE-PRESIDENT, BUSINESS SERVICES
Brian Peto

CORPORATE SECRETARY *and* DIVISION MANAGER, CORPORATE SERVICES
Dale Ward

CHIEF FINANCIAL OFFICER *and* TREASURER
Bob Lafond

DIVISION MANAGER, BANKING & PAYMENT SERVICES
Wilson Griffiths

CONSULTANT TO THE CEO
Mike Safiniuk

DIRECTOR, TREASURY SERVICES
Louise Thiessen

DIRECTOR, STRATEGIC SOLUTIONS
Louise Smith

DIRECTOR, LENDING SERVICES
Bernard C. Carling

DIRECTOR, RISK MANAGEMENT
Dina Long

DIRECTOR, HUMAN RESOURCES
Pat Gifford

vision

s Manitoba's credit unions by providing leadership and ensuring the
igh value products and services that help them achieve their vision.

mission

CREDIT UNION CENTRAL OF MANITOBA EXISTS TO

Help Manitoba's credit unions meet their business needs.
Manitoba credit unions in providing services to their members.
vide trade association services for Manitoba's credit unions.
Value/promote co-operative principles.

corporate values

RESPECT FOR PEOPLE

All individuals are highly valued and are treated equitably.
We value work-life balance.

INTEGRITY

e reliable in our word, honouring commitments and promises.

EXCELLENCE

In all we do, we are committed to the highest standards of performance, competence, and efficiency.

SERVICE

We serve Manitoba credit unions and their members.
We steward the assets and affairs of the corporation for the benefit of Manitoba credit unions.

guiding principle

rn from the past, excel in the present and prepare for the future.

Credit Union Central of Manitoba (CUCM) delivers three types of services to its member-owners, Manitoba's 48 credit unions.

- ***Core services***, including all Trade and two partially funded non-Trade services, are those that credit unions support through their annual dues and which, in turn, support CUCM activities that benefit all credit unions.
- ***Centralized services*** are those that credit unions require and which they all choose to obtain from CUCM.
- ***Customized services*** — commonly referred to as "fee-for-service" in the Manitoba system — are discretionary services that CUCM offers credit unions in the open marketplace, in competition with outside suppliers.

Several departments within the organization generate their revenue through a combination of fee-for-service and dues funding. Funding for internal support functions — primarily accounting and human resource support — are allocated directly to departments and ultimately also paid through a combination of dues and trade.

Enhancing the Value of Core Services

Dues-funded core services include CUCM's trade services: system representation (advocacy efforts with governments, departments, agencies, regulators, associated co-operatives and other organizations, credit union consultation and feedback); Credit Union Central of Canada (CUCC) and co-operative affiliate shared costs; corporate governance (support to the board and external audit functions); financial reporting and budgeting; communications; legal services; economic consultants; district/democratic support; system research; CUCM's annual general meeting; government lending program support; ombudsman and privacy; and corporate planning. Credit adjudication and manuals are core services partially funded by dues. This section provides highlights of initiatives undertaken in the area of core services that do not appear elsewhere in this report.

CUCM worked throughout 2008 to improve the value its core services.

- Following the early 2008 signing of a contract with Misys Corporation for a new **Treasury Management System**, senior representatives from Misys, Celero, Eagleview and CUCM met to lay the groundwork for the implementation phase of the "Opics" system. Throughout the spring and early summer, CUCM employees were trained on the new system and work began on configuring it to meet CUCM's needs. In early fall, the project team populated the new system with CUCM's financial instruments, completed detailed testing and ran the test system in parallel with production. The conversion took place on the first weekend of November.

When Opics is fully implemented and effectively operating, treasury services and controllers personnel will have tools that allow them to more effectively carry out their roles and responsibilities, and they will be able to implement future changes to financial and regulatory requirements at a lower cost. Manitoba credit unions, however, will be the ultimate beneficiaries of the new system. New features to be rolled out in 2009 will let them view real-time foreign exchange rates and make most treasury instrument transactions (term deposits, term loans, and foreign exchange contracts) through a secure e-portal facility. They will also be able to view their end-of-day current account balances and share capital positions and transactions at any time.

- During 2008, CUCM completed its corporate and departmental **Business Continuity/Disaster Recovery** plans and pandemic planning measures. The project is now in a phase of regular updating, testing and maintenance. As part of the plans, CUCM is working with Celero to establish a formalized disaster recovery framework to ensure that the required levels of remote connectivity, data security and service

restoration are in place for staff in the event that 317 Donald is inaccessible.

■ A major undertaking by the Manuals Centre in 2008 was to work with legal counsel and other resources within the organization to get June's ***Proceeds of Crime (Money Laundering) and Terrorist Financing Act*** requirements into the e-manual. A good portion of the department's 14 releases, 110 form reviews and 186 inquiries from credit unions dealt with money laundering. Manuals built a money laundering page on its website to provide updates, information on work in progress, and links to the revised guidelines and forms. Manuals also developed membership account opening forms that include requirements in the legislation.

■ As governments around the world began to respond to the global liquidity crisis, CUCM, in its role as credit unions' advocate, maintained close communication with provincial politicians and officials to ensure that any new initiatives to deal with the crisis would give **equal treatment to credit unions and banks**. Similar discussions between CUCC's Legislative Affairs unit and Ottawa resulted in credit unions being included in federal initiatives to deal with the crisis, including the Canada Mortgage Bond program announced by the Canada Mortgage and Housing Corporation and the Bank of Canada's Purchase and Resale Agreement (PRA). And, in addition to the work described earlier on the response to the Workers Compensation Board plans, resources from a number of areas within the company collaborated on the development of a response to **Bill 17**, a bill to ban the expansion of the hog sector in Manitoba's Red River Valley.

■ Like CUCM, CUCC is continually considering how best to represent the interests of credit unions. With credit unions growing in size and starting to establish interprovincial links, the CUCC board passed a motion in 2008 asking management to determine the best way to advocate for **national powers for credit unions**. Legislative Affairs will provide recommendations to the federal government, by late 2009, that clearly articulate the system's position in time for the next review of federal banking legislation, slated for 2012.

■ At the request of provincial centrals, CUCC took on the task of coordinating the preparation for credit unions' transition to **International Financial Reporting Standards (IFRS)**. The new standards, issued by the Canadian Institute of Chartered Accountants, are designed to ensure that credit union financial statements are prepared in a transparent and consistent fashion. CUCC formed an advisory group with representation from centrals and Canadian credit unions of varying sizes, held two introductory webinars, built a special IFRS section on its website, and designed and distributed IFRS diagnostic and disclosure toolkits. Work on IFRS will continue in 2009.

■ A number of areas support core services by delivering valuable information to system decision-makers throughout the year. Strategic Solutions undertook key research to support CUCM's planning, and published the spring and fall 2008 Strategic Intelligence Reports (SIR). The division also undertook a variety of research and planning engagements for the CUCM board and provided ongoing monitoring and reporting against the indicators of change in CUCM's environment. It also benchmarked CUCM's performance and offerings against those of other provincial centrals and facilitated the development of appropriate performance measures on the balanced scorecard.

In addition to representing the interests of the nine districts of Manitoba credit unions in 2008, CUCM's Board of Directors considered a number of items that would allow it and CUCM to work more effectively.

■ On the recommendation of the Democratic Control Review Committee (DCRC), the corporate secretary began examining **alternative governance structures** and processes that might be better suited to the rapidly changing credit union landscape in Manitoba. This work was set aside, however, when CUCM resources joined the other centrals to develop the consolidated governance model that will appear in the Prairie Central Business Strategy.

■ Early in the year, the board approved the adoption of a **consent agenda process** that will improve the efficiency of meetings by allowing it to approve routine items that require no discussion or debate. The board also approved an **Assessment of Responsible Persons**

policy, consistent with a guideline issued by OSFI, whose purpose is to minimize CUCM's exposure to reputational and other prudential risks by assessing the suitability and integrity of directors and senior managers within the organization.

The focus of the 2008 board planning session was **governance**. The board undertook a full review of CUCM's committee structure and the process used to populate committees. It also discussed director succession planning, term limits and composition ratios, as well as self- and peer evaluation. As a result of these discussions, changes were made to improve the board reorganization meeting and the process used to populate committees. (The board deferred implementation of the peer evaluation process and committee structure pending the outcome of the Prairie Central project.)

Enhancements to the **System Credit Committee (SCC)** that were put into effect in 2008 have led to a reduction in the number of SCC Level IV meetings. Following the CUCM board planning session, management was asked to review the *Credit Unions and Caisses Populaires Act* and define a new process for SCC that meets the requirements of the Act while avoiding potential conflict for CUCM board members. CUCM and CUDGC will meet with the various stakeholders in the first quarter of 2009.

Expanding the Range and Value of Centralized Services

Centralized services are those that all credit unions, while not obliged to do so through legislation or regulation, choose to procure from CUCM based on quality, pricing and other benefits. While not by design, all of CUCM's centralized services are found within the company's largest division, Banking & Payment Services.

Through the CUCC Clearing Group, CUCM participates nationally in the Canadian Payments Association **LVTS System**, which is used to exchange Canadian dollar domestic wires between financial institutions and perform settlement for payment processing. In 2008, the Payments Policy Committee of CUCC — comprising representatives from each provincial central — selected an LVTS system to replace the previous one, which was technically challenging to work with because of its age. Using software developed by a Canadian company, the new system was tested in December and implemented in the first quarter of 2009. While this back office system is transparent to Manitoba credit unions, they benefit from the new solution as it lets CUCM maintain settlement costs at historically low levels.

CUCM completed a **U.S. Bulk Exchange Project** to become a direct participant in the exchange of U.S. cheques in Canada. Previously, CUCM and all other centrals cleared their U.S. cheques through intermediary banks. While the volume of U.S. cheques handled by credit unions is relatively low, intermediaries' fees had risen significantly over time, prompting the centrals to work cooperatively to eliminate them. Centrals now exchange U.S. cheques directly with the chartered banks and each other. Implemented without impact to credit unions, the new process has reduced CUCM's reliance on a third party and allowed it to maintain low processing fees.

With ATM transactions, settlement differences at the credit union level can occur when system problems cause cardholder transactions to either time out or be posted more than once to a cardholder account. In the past, credit unions had to manually find and isolate the transactions that caused the differences in order to make adjustments. In the fall of 2008, CUCM completed an **ATM Match & Kill Project** that automatically identifies and reports outages, thereby saving credit unions time and effort.

The board of directors of the Canadian Payments Association (CPA) decided to discontinue the **Truncation and Electronic Cheque Presentment (TECP)** initiative in 2008. The project was launched in 2003 with the intention of improving the efficiency of Canada's cheque clearing process and facilitating the

introduction of a variety of image-based services to businesses and consumers that would streamline their handling, storage and retrieval of cheques. A number of challenges arose as the TECP progressed, resulting in implementation delays and the perception by some CPA members that the back office benefits they anticipated might not be achievable. Further, some felt that the high level of resources required for implementation could limit the ability of the CPA and the industry to address other priorities over the next three to four years. CUCM invested significant time and money to develop its cheque imaging system, which was successfully implemented before the CPA announced TECP. After the project launch, CUCM dedicated significant resources to new development related to TECP, most of which will continue to be used in production. CUCM was forced, however, to write off a portion of its capital investment when the project was cancelled. A parallel project, **Remote Branch Capture**, ended with the cancellation of TECP.

■ Necessitated by extensive changes required under TECP, CUCM undertook a project to redevelop online return systems (**Cheque & Automated Funds Transfer**) to replace an application it had developed in 2003. CUCM had completed a significant amount of the development work when the CPA cancelled TECP. CUCM decided to move ahead with the improved system, but because some of the specifications needed to be revisited, implementation was pushed into February 2009. In addition to providing an updated application for cheque returns, the new solution now provides a single interface for credit unions to enter AFT returns, search for reports and efficiently perform several additional back office payments functions.

■ In 2008, Banking & Payment Services developed a **Centralized Statements** service for Manitoba credit unions as they migrate to the eroWORKS banking system. The service — which will save credit unions significant time and effort — involves the rendering, printing, insertion and mailing of member statements from CUCM's location. The new system also integrates printed cheque images into the statements. In December, two eroWORKS credit unions successfully piloted the new service, which can also serve credit unions on other banking systems.

The project will be completed in early 2009 with the addition of a feature that will give credit unions the option of providing their members with an electronic statement in addition to or instead of their printed one. While the introduction of eStatements will give members a more environmentally friendly way to receive their account information, CUCM has taken steps in that direction as well by using 100% recycled paper for its printed statements.

Competitive Business Solutions for Credit Unions

CUCM competes in the open marketplace for credit union business in a number of consulting and specialty service areas. It does so by being competitive on quality and price, by retaining high quality specialists and by bringing years of experience in and knowledge of the system to its client credit unions. Four service areas — Strategic Solutions, Human Resources Consulting, marketing and communications, and Printing & Supply — exist primarily to provide value-added services to credit unions and other clients. By working with more clients on more projects in 2008, these "fee-for-service" areas generated higher gross revenues than they did in 2007.

■ **Strategic Solutions** offers an array of confidential consulting services that help credit unions understand their membership and markets, plan for the future, respond to shifts in the competitive environment, and improve internal processes. **Research** services include: member, employee and board attitudinal and behavioural research; and customized market or branch demographic analysis to assist credit unions in branching decisions and strategic planning. **Planning** services include facilitating annual board planning sessions and helping credit unions examine and address specific issues, including change management and amalgamation support. **Project Management**

Support helps clients plan, manage, control and assess their critical projects. **Business Consulting** services include: historical benchmarking analysis; customized efficiency and performance analysis; detailed loan portfolio reviews; restructuring consulting for lending activities; complete operational and process reviews (including post-amalgamation); business case development; and branch sustainability assessments. Strategic Solutions is also providing direct post-implementation support to credit unions converting to eroWorks. It continues to enhance its **Credit Union Internal Audit** service — now recommended by CUDGC — in order to keep current with the changing regulatory environment and ensure that clients are aware of best practices. **Agricultural and Commercial Lending Consulting** delivers: advanced lending instruction in collaboration with the national CUSOURCE training program; lending updates at agricultural and commercial events in Manitoba and the U.S.; and agricultural trend and policy seminars for credit unions and their invited members.

In addition to providing internal HR support to CUCM, Celero and Everlink, **Human Resources** offers services that align with credit unions' unique business needs and culture, and brings awareness of the latest HR developments and issues to the credit union system. Services include: **Employee Satisfaction Surveys** that help identify areas that are key to organizational effectiveness and success; **Incentive Pay Programs** that allow employees to directly share in gains won through improvements; **Job Evaluation** services to ensure that compensation is in line with job requirements; **Recruitment and Selection** to help credit unions find leaders with the right skills, experience and fit; and **Compensation Analysis** and recommendations. Other services include **Succession Planning**, **Performance Management**, **Insured Benefits Education**, **Career Development** and **Policy Audits and Recommendations**.

Human Resources employs competency-based systems that help credit unions: emphasize what is important by defining and building on behaviours that drive success; attract high performing employees; establish common measurement systems for all activities; focus training and development efforts to close gaps in skill sets to meet future needs, and help employees adapt and grow with the organization and increase productivity. Using the full spectrum of Human Resource knowledge areas, the department also facilitates the delivery of customized employee, manager and board training sessions.

Directly and through relationships with key partners, CUCM **Printing & Supply** provides credit unions with: printing, in all formats from letterhead and envelopes to posters and banners; all banking and ATM supplies; CUCM forms; apparel and promotional products; and office supplies. Sales in 2008 of over $1.4 million were higher than 2007, reversing a years-long trend of year-over-year sales declines. The increase is attributable to sales of the popular Made-in-Manitoba wall calendar, as well as the strong working relationship Printing & Supply enjoys with CUCM **Communications** and **Marketing** resources. The teamwork between the creative and production sides adds significant value to Manitoba credit unions by making CUCM a one-stop shop for high quality marketing and member communication products. Communications and marketing services to credit unions and internal clients include: newspaper and other advertising (including a full-body automobile wrap in 2008); member statements and insert design; business cards; brochures; posters; trade show artwork; tent cards; printed newsletters and newsletter articles; communications and public relations consulting; and amalgamation communications.

Celero Solutions

In 2008, Celero Solutions and its team of nearly 350 employees in Calgary, Regina, Saskatoon and Winnipeg continued to make progress towards becoming a leading provider of technology solutions to the financial industry others aspire to be, people want to work for, and clients know they can rely on.

The full implementation of Project Meta, Celero's program to migrate 116 Prairie credit unions to the eroWORKS Retail Banking System, kicked off in May of 2008. Through Meta, 30 eroWORKS implementations were completed in 2008, including eight in Manitoba. At the same time, the Meta team validated a repeatable conversion process. Celero is on track to complete the project by the end of 2010, with 42 implementations slated for 2009 and the balance for 2010.

Other key highlights from 2008 include:

- *Celero Delivers!* — Since Celero launched the internal program designed to enhance processes and remove barriers hindering service excellence, it has introduced several programs that have improved delivery to clients. For example, in June Celero introduced a streamlined process for small works projects. Small works are considered short duration projects that take less than 20 hours and are usually routine activities performed for clients. The small works process is designed to quickly shepherd these projects through the organization. As of November 30, 2008, Celero had completed over 450 small works projects.
- *Automated Risk Compliance (ARC) Solution* — In partnership with Verafin and World-Check, Celero introduced ARC. The tool allows credit unions to meet their regulatory monitoring and reporting requirements under Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.
- *5970 Audit* — Celero completed four Section 5970 Audits and received "no qualifications" reports from its auditors. The audit includes a rigorous examination of every internal control Celero employs, site visits and reviews of overall operations. Although the audit focuses on banking, infrastructure and trust applications Celero hosts, the controls and standards identified are consistent across all business lines and clients. Receiving an unqualified report means Celero maintains internal controls that meet or exceed industry standards, and takes appropriate measures to mitigate risks for all clients.
- *Corporate Value Statements* — Celero introduced its value statements in 2008. The five statements were created in consultation with employees representing all areas of Celero. The values guide everything Celero does and embraces what drives the organization and its people.
  - We have passion for our customers' success.
  - We deliver quality and innovation in everything we do.
  - We are accountable and responsible.
  - We enjoy a culture of teamwork and performance.
  - We contribute to profitability and sustained growth.

Finally, Celero maintained the day-to-day technology systems and operations that credit unions, owners and other financial institutions depend on for their business. In 2008, Celero: served over one million banking memberships; processed over 490 million banking system transactions including more than 155 million point-of-sale and ATM transactions through Everlink Payment Services; completed in excess of 350 information technology development and integration projects; filled over 40,600 requests through its regional service centres; and achieved banking system uptime reliability of 99.96%.

EVERLINK®
SERVICES

Everlink's product and professional service highlights in 2008 include: near completion of the migration away from the CGI network (resulting in 77% cost savings); successful product releases on Remote Key Loading, remote software distribution, ATM voice distribution and multi currency dispensing; a number of key activities related to EMV-Chip compliance including pre-certification of common ATM models and testing on 18 host banking systems; the introduction and enhancement of ATM monitoring services; negotiating lower card authorization rates with NCR; improving customer service through a self-serve web portal; and introducing a fraud management system.

On the operational side, Everlink improved its incident logging and resolution process, which gives the company a more complete and accurate view of its environment and workload. Everlink also completed system enhancements and certification to support Celero's migration to eroWorks.

In 2008, Everlink submitted a response to a switching RFP (Request for Proposals) from CEDA — the Co-operative EFT Development Association, which oversees switching and network governance for both the National Node (primarily Alberta, Saskatchewan and Manitoba) and C2C nodes (B.C., Ontario and Atlantic), as well as governing the credit union system's participation in networks such as Interac, PLUS and the credit union ACCULINK network.

At the time of the RFP, Everlink provided switching services to 90% of Canadian credit unions. The C2C committee decided to move to a different supplier, taking a number of their credit unions with them. As a result, Everlink lost approximately 35% of credit union market share by volume.

Through 2008, the National Node Coordinating Committee (NNCC) worked with CUCC and the provincial Centrals of Manitoba, Saskatchewan and Alberta to establish a new contract and renewed business relationship with Everlink. Once established, the new contract and relationship will be made available to all Canadian credit unions, NNCC or otherwise.

The items described here are just a few of those related specifically to serving Canadian credit unions. Additional activities related to expanding the company's business outside the credit union system.

Chip Card Migration Project a Canadian Effort

In 2005, in response to mounting levels of fraud and related losses, Canada's Interac Association set out specifications and a compliance mandate for all Canadian cards, ATMs and point-of-sale terminals. The specifications mirror those of the Europay MasterCard Visa (EMV) chip card which, in several years of wide use throughout Europe, has proven to be extremely successful in combating fraud. Cards are embedded with computer chips that work together with chip terminals to ensure highly secure transactions and are very difficult to copy.

The entire Canadian payments system is working together to introduce the new technology. Credit Union Central of Canada (CUCC) participated in an Interac-led multilateral chip trial in Kitchener-Waterloo in 2008 that proved the efficacy of the technology in the Canadian payments environment.

Working with CUCC, credit unions and other provincial centrals, CUCM is guiding Manitoba credit unions through the chip migration process by providing assistance on ATM compliance standards and upgrade information, communications and marketing, providing input into decisions that are unique to Manitoba, identifying tool, information and service gaps in the national/provincial migration plan, and providing general feedback and direction.

A number of CUCM and Manitoba credit union personnel sit on the National Node Coordination Committee (NNCC) Chip Card Migration Steering Committee and its ATM, migration and communications subcommittees.

In addition to its committee and subcommittee work, CUCM assembled a chip migration advisory panel to ensure that all Manitoba credit unions receive the direction and assistance they will require to carry out a successful migration. The panel comprises provincial credit union representatives of credit unions on CUBS/eroWORKS, Ovation, Infonancial, Fincentric and Telepop retail banking systems.

Working with Everlink, Celero and ATM suppliers, Manitoba's representative on the ATM subcommittee focused on gathering and communicating all information credit unions will require to make informed decisions on how to bring their own ATMs into compliance, whether through upgrades or replacement.

CUCC, the provincial centrals, Celero, Everlink and CUETS also began to plan and schedule the issuance of chip cards within the Interac mandated time lines that will replace the current magnetic stripe Member Card.

CUCM also played a key role in bringing together non-CUBS/eroWORKS credit unions to facilitate their migration from the Manitoba regional switch to become a direct connector with Everlink by December 2012. In doing so, CUCM provided further assurance to all stakeholders that the entire provincial system is moving together toward compliance.

On the communications subcommittee, CUCM helped ensure that all national node credit unions will be in possession of a solid communications plan — including articles, releases, marketing material and other items — to help them educate staff and members about chip and the migration process.

In Manitoba and the other jurisdictions on whose behalf the NNCC is working, credit unions are on track to meet the Interac deadlines, the first of which is December 31, 2010, when 90% of deposit-taking ATMs, 50% of other ATMs and 65% of active cards must be converted.

the co-operative principles

The Seven International Co-operative Principles are guidelines by which co-operatives put their values into practice. Part of CUCM's mission is to promote these principles.

1st Principle: Voluntary and Open Membership
Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control
Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence
Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information
Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community
Co-operatives work for the sustainable development of their communities through policies approved by their members.

MANITOBA CREDIT UNIONS

Order of MERIT

The Manitoba Credit Unions Order of Merit Award

recognizes individuals who — whether as employees or elected officials — have demonstrated a significant commitment to Manitoba credit unions and the communities in which they operate. Each year, up to three individuals or groups, including Pioneers, are selected to receive the award, based on their exemplary service to Manitoba credit unions, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the Seven International Co-operative Principles.

In addition to the commemorative plaque they receive as part of the award, recipients or their representatives also have the honour of selecting a Manitoba secondary or post-secondary educational institution and faculty or program to receive a bursary to award to a student based on achievement, need or other criteria.

The Credit Union Managers' Association of Manitoba and CUCM co-fund the $1,000 bursaries awarded through the program.

Barney Martin
CREDIT UNION CENTRAL OF MANITOBA

Barney Martin was nominated for a posthumous Order of Merit Award by the management and board of Credit Union Central of Manitoba.

After starting his career in credit unions in Alberta, first with Tuxedo Credit Union then the Credit Union League of Alberta, Martin came to Manitoba in 1964 to take a position as General Manager of the Credit Union League of Manitoba.

The mid-'60s to the end of the '70s was an era of steady growth and constant change for the credit union system — a time when credit unions were finding their way from church basements, kitchen tables and small operations into the wider banking world. Martin played an integral role in that growth and change. He was CEO when the Province created the Credit Union Stabilization Fund (now the Credit Union Deposit Guarantee Corporation) in 1965. He revised and enhanced drafts of the *Credit Unions/Caisses Populaires Act* that would be proclaimed in 1970. He brought together the operations of the Credit Union League of Manitoba and the Co-operative Credit Society of Manitoba (CCSM) in 1971 and, while serving as CEO of both organizations, saw the scope of their services grow. (The roles and responsibilities of these and other organizations dedicated to serving credit unions would be brought together in 1979 and later renamed Credit Union Central of Manitoba.) He was also CEO when CUCM opened Credit Union Plaza in 1979, and when skyrocketing interest rates shook the system's confidence at the end of the decade.

Martin also played a key role in the re-branding of the credit union system with the Hands & Globe as the international symbol, replacing the man under the umbrella. He felt that the Hands & Globe better exemplified the co-operative values and collective strength of the credit union system.

Until his retirement in 1979, Martin worked with colleagues throughout the country and continent in the service of the financial co-operative sector. Starting in 1965 — when there was a great degree of affiliation between the U.S. and Canadian credit union systems — he served as a member and president of the International Association of Managing Directors of Credit Unions, and as the first Canadian representative on the Planning Committee of the U.S.-based Credit Union National Association. In 1969, he provided counsel to the creation of the Jamaican credit union system and served two years as a director of Alberta-based Northland Bank, a co-operative based banking organization.

Outside the credit union system, Martin served president of Riding for the Disabled, the Manitoba Heart Foundation and the Canadian Heart Foundation.

Barney passed away July 9, 1992. He is survived by his wife Pat, daughter Debra and son David.

Management Commentary on CUCM's Financial Statements

CUCM'S TRANSITION TO CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (CICA) RULES

Since January 1, 2007, CUCM's financial operating results have been based on fair value reporting of financial instruments, as required by the Canadian Institute of Chartered Accountants (CICA). The transition to fair value reporting necessitated a review of and changes, where required, to CUCM's financial operating principles. The review resulted in: changes to the pricing of liquidity deposits; confirmation that excess financial margin rebates and dividends, exclusive of fair value adjustments, would continue; identification of changes needed to modify the process for CUCM's capitalization; and reaffirmation that CUCM's retained earnings target should continue, inclusive of fair value adjustments. In addition to those which are required to be designated as held for trading, CUCM elected to designate the majority of its financial instruments as held for trading. Under this designation, the impact of fair value flows through CUCM's Statement of Operations (unrealized gains and losses on instruments held for trading) and, ultimately, retained earnings.

CUCM'S INVESTMENT POLICIES AND PRACTICES

The credit union system's liquidity funds have always been in high quality fixed income securities (bonds and money market instruments; no equities). Most of CUCM's holdings are comprised of "Schedule I" bonds issued by the major Canadian chartered banks.

CUCM's conservative investment policies and high investment standards have sheltered CUCM from any investment losses caused by defaults. Note 3 to the financial statements summarizes CUCM's investments by credit rating and period of maturity. Without exception, all investment holdings continue to be highly rated, to pay interest, and to be repaid in full on their legal maturity dates.

Additionally, Note 15 provides supplementary information respecting CUCM's risk management program: specifically, interest rate risk management that follows rigid interest rate repricing parameters.

GLOBAL LIQUIDITY CRISIS

Global markets suffered through the latter half of 2007 and all of 2008 from an ever-deepening crisis of confidence and liquidity that had its roots in U.S. sub-prime mortgage lending practices. The collapse of Lehman Brothers in September 2008 added fuel to the fire, rocked confidence, and sent investors fleeing to the safety of government securities, further devaluing all non-government securities.

Many investors stopped buying even high-quality corporate bonds, including those issued by Schedule I Canadian banks. To make matters worse, the supply of new bonds continued to increase as financial institutions, in need of liquidity, issued large amounts of debt. The imbalance between supply and demand drove bond prices down, and new bonds could only be sold at increasingly wide spreads over benchmark government bonds. As a result, the fair market value of these corporate bonds fell, too — even though they remained highly rated and continued to pay interest and maturity proceeds without interruption.

The crisis, in short, meant that investments could only be sold at depressed prices.

Globally, central banks tried to restore confidence by injecting liquidity into their financial systems and dropping interest rates to levels not seen in several decades. Despite these efforts, market conditions are still strained and liquidity remains tight as banks — facing higher costs to issue debt — continue to pass those costs on through higher rates and curtailed lending.

Many economists say the global economic recession will be deep and prolonged, and that the crisis of confidence is likely to continue through 2009 and possibly beyond. CUCM remains confident, however, that the high quality of its underlying investments will continue to shield it from defaults.

Manitoba credit unions began the year with significant liquidity and seized opportunities to increase lending to consumers and businesses (and further grow their market share in the process). As a result, system loan growth outpaced deposit growth over the year.

In 2008, CUCM reviewed its lending rates to credit unions that may need to borrow to fund a temporary cash shortfall. Coming out of that review was an increase in lending rates designed to ensure that the credit unions that supply liquidity are fairly compensated relative to investment opportunities that CUCM would undertake in the absence of those loans ("opportunity pricing").

IMPACT OF FAIR VALUE ACCOUNTING AND THE GLOBAL CREDIT AND LIQUIDITY CRISIS ON CUCM

The combination of the implementation of the new CICA rules and the global credit and liquidity crisis negatively impacted CUCM's overall financial results in 2008, as measured by fair value accounting. Included in CUCM's statement of operations are unrealized losses on instruments held for trading of $71.07 million (4% of credit union liquidity deposits at CUCM).

THE POSITIVE IMPACTS

The credit crisis presented CUCM with higher yielding investment opportunities (primarily asset swaps and bank-sponsored asset backed securities) that resulted in record-high liquidity pool returns and higher distributions to credit unions in 2008. Total financial margin earned was $6.8 million, of which $5.625 million was distributed during 2008.

These positive returns were possible because CUCM calculates financial margin based on the historical cost accounting method, which eliminates the volatility that can result from fair value accounting. On this basis, CUCM's earnings supported a record return of BA + 55.8 bps to credit unions on their short-term deposits. Credit unions also received an additional 6.4 bps on their longer-term deposits, which were already earning the full market rates. Returns on investments representing share capital supported favourable dividends to holders of Class I and II shares.

CUCM's investment returns, on both short-term liquidity deposits and share capital, will continue until the investments mature over the coming years. (The situation is similar to that which existed during the market disruptions occurring at the time of 9/11, Enron and Worldcom, which contributed significantly to favourable short-term liquidity returns over the succeeding years, 2001 to 2007.)

Since fair valuation neither adds nor detracts from the economic value of investments or debt instruments held to their maturity date, the unrealized losses incurred since the crisis began will reverse over time, if and when markets return to normal or the underlying instruments mature and are repaid. The reversals are subject to change in the near term due to interest rate, foreign exchange and credit risks. The losses do not reflect a decline in the credit quality of CUCM's investment portfolio. CUCM's practice is to hold these investments to maturity.

THE NEGATIVE IMPACTS

Adjustments arising from the fair valuation of financial instruments are driven by many factors including: imperfect future cash flows of matched financial instruments and of asset swaps (bond value at maturity versus nominal value for the interest rate swap derivative); differing valuation tools for investments and deposits; and different valuation bases for investments (market driven) and deposits (internally based cash flow discounting).

Since the onset of the liquidity/credit crisis, CUCM experienced negative fair value adjustments of significant and varying amounts. These losses were driven primarily by a sharp repricing of credit risk for all non-government guaranteed instruments (bank debt, asset-backed securities and other corporate debt) and followed a pattern of worsening when the markets were most concerned about liquidity/credit risks. Heightened concern in the U.S. economy as recession settled in accentuated the losses.

Contrary to 2007, CUCM saw fair value losses on both investments and deposits. (Normally, one should at least partially offset the other.) This was compounded by the fact that bid/offer spreads widened — more so for investments than for deposits, thus accentuating the fair value losses. The fair value losses rose steadily, driven by increasing concerns over the shortage of liquidity, credit risk, and the possibility of a global recession.

The loss of investor confidence in financial markets depressed the values of all non-government guaranteed instruments (bank debt, asset-backed securities and other corporate debt). CUCM issued additional share capital during 2008 of $43.2 million, plus an additional $22 million in February 2009, to offset its resulting fair value losses.

CREDIT UNION CENTRAL *of* MANITOBA

MANAGEMENT REPORT

February 26, 2009

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and
Chief Executive Officer

BOB LAFOND
Treasurer

PRICEWATERHOUSECOOPERS

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February 26, 2009

Auditors' Report

To the Members of
Credit Union Central of Manitoba

We have audited the consolidated balance sheet of **Credit Union Central of Manitoba** as at December 31, 2008 and the consolidated statements of operations, comprehensive loss and reserves (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Canada

Consolidated Balance Sheet

as at December 31, 2008

in thousands of dollars	2008	2007
Assets		
Liquidity pool [note 3]	1,930,282	1,769,571
Derivative financial instruments	9,505	4,933
Intermediation pool [note 4]	192,935	123,205
Service related [note 5]	34,321	25,829
	2,167,043	1,923,538
Liabilities		
Members' deposits	1,753,643	1,814,408
Obligations under repurchase agreements	241,284	—
Derivative financial instruments	69,916	1,255
Accounts payable	9,237	6,221
	2,074,080	1,821,884
Members' Equity		
Share capital [note 6]	154,629	103,228
Deficiency	(61,666)	(1,574)
	92,963	101,654
	2,167,043	1,923,538

Approved by the Board of Directors

DIRECTOR

DIRECTOR

Consolidated Statement of Operations, Comprehensive Loss and Reserves (Deficiency)

for the year ended December 31, 2008

in thousands of dollars	2008	2007
Financial revenue		
Liquidity pool	82,181	81,382
Intermediation pool	7,221	4,813
	89,402	86,195
Cost of funds	73,320	79,493
	16,082	6,702
Unrealized losses on instruments held for trading [note 12]	(71,074)	(9,723)
Financial margin	(54,992)	(3,021)
Share of Celero's income	266	249
Net operating recovery [note 8]	473	687
	739	936
Loss before credit union patronage rebates	(54,253)	(2,085)
Credit union patronage rebates		
Financial margin rebate	6,807	2,378
Distribution of Celero's income	266	249
	7,073	2,627
Loss before income taxes	(61,326)	(4,712)
Recovery of income tax [note 9]	(7,477)	(487)
Net loss and comprehensive loss for the year	(53,849)	(4,225)
Reserves (Deficiency) — Beginning of year	(1,574)	6,124
Dividends — net of related income tax savings [note 9]	(6,243)	(3,473)
Deficiency — End of year	(61,666)	(1,574)

Consolidated Statement of Cash flows

for the year ended December 31, 2008

in thousands of dollars	2008	2007
Cash provided by (used in)		
Operating activities		
Net loss for the year	(53,849)	(4,225)
Items not affecting cash		
Unrealized losses on instruments held for trading	71,074	9,723
Amortization	1,291	1,673
Recovery of future income taxes	(8,533)	(1,272)
	9,983	5,899
Net change in receivables, prepaids, inventories and accounts payable	3,913	(1,998)
	13,896	3,901
Investing activities		
Increase in liquidity pool securities	(128,796)	(210,973)
Increase in other financial assets	(4,572)	(4,933)
Increase in intermediation pool	(69,730)	(28,652)
Acquisition of capital assets — net of disposals	(2,147)	(16,096)
	(205,245)	(260,654)
Financing activities		
Increase (decrease) in members' deposits	(75,578)	190,728
Increase in repurchase agreements	241,279	—
Increase in members' other financial liabilities	7,314	1,255
Increase in share capital (note 6)	51,401	11,815
Dividends — net of taxes	(6,243)	(3,473)
	218,173	200,325
Increase (decrease) in cash and cash equivalents	26,824	(56,428)
Cash (overdraft) — Beginning of year	(40,401)	16,027
Cash (overdraft) — End of year	(13,577)	(40,401)

in thousands of dollars	2008	2007
Supplementary Cash Flow Information		
Cash interest paid (received)		
Income tax refund	(497)	—
Income tax instalments	178	238

[1] Change in accounting policies

On January 1, 2008, Credit Union Central of Manitoba (the "Organization") adopted three new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook, namely Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments — Disclosures*, and Section 3863, *Financial Instruments — Presentation*. Section 3862 and 3863 consist of a comprehensive series of disclosures and presentation requirements applicable to financial instruments. These new sections revise and enhance the disclosure requirements previously set out in Section 3861, *Financial Instruments — Disclosure and Presentation*, and carry forward its presentation requirements which were unchanged. Section 1535 consists of comprehensive disclosure requirements related to the Organization's objectives, policies and processes for managing capital including required disclosures of quantitative data about the Organization's management of capital, compliance with externally imposed capital requirements and consequences of non-compliance with such capital requirements.

The application of the aforementioned standards only impacted the Organization's disclosures included in these consolidated financial statements.

On October 24, 2008, the CICA issued changes to Section 3855, *Financial Instruments — Recognition and Measurement*, and Section 3862, *Financial Instruments — Disclosures*. The changes specify that the Organization may reclassify a financial asset, other than a derivative financial instrument or a financial asset which upon initial recognition was designated as held for trading, out of the held for trading category, only in rare circumstances. The changes to CICA 3862 require disclosure regarding reclassifications of financial assets out of the held for trading category. The Organization did not reclassify any financial assets out of the held for trading category during the year.

On January 1, 2008, the CICA amended Section 1400, General Standards of Financial Statement Presentation, to include requirements for management to assess the Organization's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the Organization's ability to continue as a going concern. The application of this section did not impact the consolidated financial statements for the year ended December 31, 2008.

[2] Significant accounting policies

BASIS OF PRESENTATION

The consolidated financial statements of the Organization have been prepared in accordance with the *Co-operative Credit Associations Act*, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). No such specifications have been made by OSFI, and the significant accounting policies used in the preparation of the financial statements are summarized below.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, 317 Donald Inc., after the elimination of inter company accounts and transactions.

FINANCIAL INSTRUMENTS DESIGNATED AS HELD FOR TRADING

As specified by OSFI, financial instruments, other than those required to be designated as held for trading, may be designated on a voluntary and irrevocable basis as held for trading provided that such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; and
- allows for reliable measurement of the fair value of the financial instruments designated as held-for-trading.

Other than those required to be designated as held for trading, the Organization has met the above requirements and has elected to designate certain of its financial instruments as held for trading as detailed below.

a) Liquidity pool

Investments designated as held for trading

These investments are recorded at their fair value initially using the settlement date for recognizing transactions and thereafter based on quoted prices in an active market. Interest income earned, amortization of premiums and discounts, dividends received as well as realized gains and losses are included in financial revenue — liquidity pool using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations and reserves (deficiency) as unrealized gains (losses) on instruments held for trading.

Investments designated as held to maturity

These investments, which are matched to equity, are recorded at their amortized cost using the settlement date for recognizing transactions. Interest income earned, amortization of premiums and discounts as well as dividends received are included in financial revenue — liquidity pool using the accrual basis of accounting. Accrued interest receivable is included with the corresponding principal balance. Other than temporary declines in market value are recognized as they occur in the determination of income. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Cash and cash equivalents

Cash and cash equivalents consists of cash and deposits with other financial institutions.

Transaction costs

All transaction costs are expensed as incurred.

b) Derivative financial instruments

Interest rate swap agreements

The Organization enters into interest rate swap agreements in order to manage its exposure to changes in interest rates.

Additionally, the Organization, in its role as a financial intermediary, enters into interest rate swap agreements and index-linked swap agreements with its member credit unions. Concurrently, the Organization enters into a counter agreement with a third party financial institution.

These agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values recognized as unrealized gains (losses) on instruments held for trading. Interest income on the receiving leg of the swap is included in financial revenue — liquidity pool and conversely interest expense on the paying leg of the swap is included in cost of funds using the accrual basis of accounting. The fair value of interest rate swap agreements are recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet.

Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates.

Additionally, the Organization, in its role as a financial intermediary, also enters into foreign exchange forward rate agreements with its member credit unions. Concurrently, the Organization enters into a counter agreement with a third party financial institution.

Foreign exchange forward agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values included in financial revenue — liquidity pool. The fair value of foreign exchange forward agreements are recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the host instrument). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and the combined contract is not designated or classified as held for trading. Embedded derivatives are accounted for at fair value on the balance sheet and changes in fair value are recorded in statement of operations. The Organization determined that no embedded derivatives would be required to be separated from the host contract as at December 31, 2008.

c) Intermediation pool

Equity instruments are designated as available for sale and where a quoted market price in an active market is not available, they are recorded at cost. All other instruments are designated as loans and receivables and are recorded at amortized cost using the effective interest method. Interest and dividend income earned are included in the financial revenue — intermediation pool using the accrual basis of accounting. Accrued interest or dividends receivable are included with the corresponding principal balance. Other than temporary declines in market value are recognized as they occur in the determination of income. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Investment in Celero Solutions ("Celero")

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investee. The book value of the investment is adjusted for the share of net earnings (loss) and distributions received from the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization. The Organization accounts for increases in its ownership interests as step acquisitions. The Organization accounts for reductions in its ownership interest as dilution gains (losses).

Celero is an unincorporated venture that provides information technology services to the venture participants (owners), credit unions and other organizations. Pursuant to the venture agreement, the Organization has a 25.3 % (2007 — 25.3%) ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services. Effective January 1, 2009 the Organization will increase its ownership interest in Celero to 31.4%.

The Organization's share of Celero's net earnings (loss) is based upon the net earnings (loss) of the business lines that it contributed to the venture and its ownership interest in the net earnings (loss) of Celero's remaining operations.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's net earnings. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting contribution and an amount recoverable from its member credit unions.

d) Members' deposits

Members' deposits are designated as held for trading and recorded at their fair value initially using the settlement date for recognizing transactions. Members' deposits are redeemable at the option of the member credit unions and are recorded at the amount payable on demand. The amount payable on demand is computed by discounting contractual cash flows as follows:

- terms less than 13 months, using prevailing banker's acceptance rates offered by the Organization; and
- terms greater than 13 months, using the corresponding market yield on the original matched liquidity pool investment.

Interest expense is included in cost of funds using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized as unrealized gains (losses) on instruments held for trading.

e) Obligations related to debt securities sold under repurchase agreements

The Organization enters into short-term sales of securities under agreements to repurchase at predetermined prices and dates. The corresponding securities under these agreements continue to be recorded in Liquidity Pool assets. The obligations are designated as other financial liabilities and are recorded at amortized cost using the effective interest method. These agreements are treated as collateralized borrowing transactions and the obligations are carried on the consolidated balance sheet at the amounts at which the securities were initially sold. Interest incurred on the obligation is reported in cost of funds using the accrual basis of accounting.

INCOME TAXES

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities including equity accounted investments. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

AMORTIZATION

Amortization is recorded annually by the Organization at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

Technology and equipment	3 to 5 years
Furniture	5 to 10 years
Leasehold improvements	remaining term of the lease
Building	50 years

Costs for capital assets under development include direct development costs including overhead and interest costs, as applicable. Capitalization of costs ceases and amortization commences when the capital asset is substantially complete and ready for use.

FUTURE CHANGES TO ACCOUNTING POLICIES

Goodwill and intangible assets

In November 2007, the CICA issued CICA 3064, *"Goodwill and Intangible Assets"*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria when intangible assets can be recognized. CICA 3064 applies to internally generated intangible assets such as research and development activities and rights under licencing agreements. The section also indicates that expenditures not meeting the recognition criteria of intangible assets are expensed as incurred. The Organization plans to, and must, apply these new standards effective January 1, 2009. The Organization does not expect the adoption of such standard to have a significant impact.

International Financial Reporting Standards (IFRS)

In February 2008, the CICA confirmed that all publicly accountable enterprises will be required to report under IFRS effective January 1, 2011. IFRS will replace Canadian GAAP. The Organization has developed an IFRS project plan to guide the Organization in meeting these new standards.

[3] Liquidity Pool

in thousands of dollars	2008 Held for Trading	2008 Held to Maturity	2008 Total	2007 Total
Debt Securities				
Governments	266	—	266	2,251
Banks and trust companies	1,286,435	87,850	1,374,285	894,431
Corporate	556,957	12,351	569,308	913,290
	1,843,658	100,201	1,943,859	1,809,972
Cash (Overdraft)	(13,577)	—	(13,577)	(40,401)
	1,830,081	100,201	1,930,282	1,769,571

The fair value of debt securities held to maturity is $98,395,000 (2007 — $89,129,000). The decline in fair value over carrying value is due to the international credit and liquidity crisis which has caused a temporary diminution in the value of the securities. Furthermore, none of the underlying securities have been downgraded by rating agencies.

Interest income recognized from debt securities held to maturity during the year was $4,357,000.

Debt securities credit rating and period of maturity are as follows:

December 31, 2008

in thousands of dollars	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5+ years	Total
Credit Rating							
AAA (R1H)	345,987	113,411	35,642	15,069	32,350	—	542,459
AA (R1M)	177,110	279,088	205,454	433,936	239,993	65,819	1,401,400
Total	523,097	392,499	241,096	449,005	272,343	65,819	1,943,859

December 31, 2007

in thousands of dollars	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5+ years	Total
Credit Rating							
AAA (R1H)	731,202	34,588	43,649	27,030	2,471	—	838,940
AA (R1M)	187,928	154,993	135,058	111,930	308,466	51,353	949,728
A (R1L)	21,146	158	—	—	—	—	21,304
Total	940,276	189,739	178,707	138,960	310,937	51,353	1,809,972

[4] Intermediation pool

in thousands of dollars	2008	2007
Loans and receivables		
Member loans and investments		
Credit unions	168,821	98,149
Co-operatives	1,373	1,630
Mortgage investments	407	549
Total loans and receivables	170,601	100,328
Available for sale financial assets		
Shares		
Credit Union Central of Canada	3,546	3,707
Co-operatives	5,206	5,431
Total available for sale financial assets	8,752	9,138
Equity accounted investments		
Investment in Celero		
Loans receivable	13,873	14,386
Share of undistributed earnings (loss)	(291)	(647)
Total equity accounted investments	13,582	13,739
	192,935	123,205

The fair value of member loans and investments and mortgage investments approximate their carrying value as these investments are generally due on demand at their carrying value.

The fair value of shares is not readily determinable as they represent investments in equity instruments that do not have quoted market prices in an active market and accordingly fair value cannot be measured reliably. No market exists for such investments and the Organization intends to hold such financial assets indefinitely.

[5] Service related assets

in thousands of dollars	2008	2007
Land	1,379	1,379
Building	13,818	13,818
Technology and equipment, furniture and leasehold improvements	13,001	10,851
Accumulated amortization		
Building	(542)	(265)
All other	(7,402)	(6,385)
	20,254	19,398
Other receivables	3,666	4,558
Prepaid expenses and inventories	670	675
Future income taxes [note 9]	9,731	1,198
	14,067	6,431
	34,321	25,829

Amortization expense for the year was $1,291,000 (2007 — $1,673,000). Technology and Equipment includes $3,025,000 (2007 — $993,000) related to projects under development that are not amortized.

[6] Share capital

AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued and redeemed at $5 each.

MEMBERSHIP

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

Every member of the Organization is required to own a minimum of two Class I shares.

RIGHTS AND PRIVILEGES

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

ISSUED AND OUTSTANDING

in thousands of dollars	2008	2007
Class I		
Manitoba credit unions	77,901	48,000
Co-operatives	1,228	1,228
Class II		
Manitoba credit unions	75,500	54,000
	154,629	103,228

During the year, $29,901,000 (2007 — $7,113,000) of Class I shares and $21,500,000 (2007 — $12,556,000) of Class II shares were issued for cash consideration, and Nil (2007 — $743,000) of Class I shares and Nil (2007 — $7,111,000) of Class II shares were redeemed.

[7] Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations and such services are measured at the exchange amount. During the year, the Organization's charges to Celero aggregated $2,281,000 (2007 — $2,244,000) and Celero's charges to the Organization aggregated $498,000 (2007 — $454,000). The net recovery from Celero of $1,784,000 (2007 — $1,790,000) is included as an offset to net operating expense [note 8].

Interest charges to Celero were $629,000 (2007 — $611,000) for the year.

Other receivables include $26,000 due from Celero (2007 — $38,000 due to Celero).

[8] Net operating recovery

in thousands of dollars	2008	2007
Recoveries from members		
Clearing fees and other financial charges	6,495	6,370
Basic assessment	4,213	3,971
Fee for service	2,689	2,160
Liquidity management assessment	1,210	1,269
Printing and supplies — net of cost of $1,128 (2007 — $928)	225	299
The Credit Union Deposit Guarantee Corporation fees	224	216
Patronage rebate — The Co-operators	22	22
	15,078	14,307
Operating expenses		
Personnel	8,197	7,326
National shared costs	1,721	1,347
Amortization and leasing	1,431	1,851
Professional services	1,257	738
Settlement costs	1,068	1,005
Occupancy costs	983	848
Hardware and software maintenance	727	386
General	725	349
Co-operative democracy	473	457
Printing and supplies	274	290
Dues, grants and memberships	243	238
Travel	226	223
Insurance and bonding	193	134
Telephone and computer telecommunications	152	139
Postage and delivery	109	79
Capitalized Costs — assets under development [note 5]	(1,390)	—
Net recovery from Celero	(1,784)	(1,790)
	14,605	13,620
Net operating recovery	473	687

[9] Recovery of income taxes

The Organization provides for income taxes at statutory rates of 13.0% (2007 — 16.1%) as determined below:

shown as %	2008	2007
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10.0)
Additional deduction for credit unions	(17.0)	(16.0)
Federal surtax	—	1.1
Net federal tax rate	11.0	13.1
Provincial tax rate	2.0	3.0
	13.0	16.1

The Organization's accounting loss for tax purposes and related provision for income taxes are as follows:

in thousands of dollars	2008	2007
Loss before income taxes	(61,326)	(4,712)
Non-taxable items		
Dividends	(2,410)	(397)
All other adjustments	96	87
Accounting loss for tax purposes	(63,640)	(5,022)

in thousands of dollars	2008	2007
Expected recovery of income taxes at statutory rates	(8,273)	(809)
Change in expected future tax rates	774	285
Other adjustments — net	22	37
Recovery of income taxes on accounting income for tax purposes	(7,477)	(487)
Income tax savings on the payment of dividends	(933)	(667)
Total recovery of income taxes	(8,410)	(1,154)

Dividends charged against reserves are net of the foregoing related income tax savings of $933,000 (2007 — $667,000).

The components of the total recovery of income taxes are as follows:

in thousands of dollars	2008	2007
Provision for current income taxes	123	118
Recovery of future income taxes	(8,533)	(1,272)
Recovery of income taxes	(8,410)	(1,154)

The significant components of future income taxes are as follows:

in thousands of dollars	2008	2007
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(162)	(186)
Unrealized gains (losses) on instruments held for trading	9,696	1,292
Provisions for expenditure currently not deductible for income tax purposes	197	92
Future income taxes	9,731	1,198

[10] Directors' expenses

Directors received remuneration of $203,600 (2007 — $201,000) and expense reimbursement of $49,700 (2007 — $36,700).

[11] Pension plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2008 were $330,000 (2007 — $305,000). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

[12] Unrealized losses on instruments held for trading

in thousands of dollars	2008	2007
Liquidity Pool Investments	5,100	(9,455)
Derivatives	(61,346)	(5,600)
Members' Deposits	(14,828)	5,332
Unrealized losses on instruments held for trading	(71,074)	(9,723)

The unrealized losses on instruments classified as held for trading relate primarily to declines in fair value resulting from lower market prices during the latter part of the fiscal year. Moreover, widening of swap market and credit spreads also contributed to such unrealized losses. Such losses would reverse upon maturity of the respective financial instruments, however are subject to change in the near term due to interest rate, foreign exchange and credit risks, as disclosed in note 15.

[13] Commitments

a) CUCM

During 2008, the Organization entered into a *Managed Services Agreement* with Misys International Banking Systems Inc. in respect to the hosted Treasury Management system (Opics) under which the Organization committed to pay $5,443,000 USD in hosting service fees over the ten year contract. The Organization is also committed under the new Treasury Management system to pay Celero Solutions hosting service fees currently estimated to be $38,400 per annum for the life of the contract, subject to re-negotiations.

The Organization also entered into a software maintenance agreement with Metavante effective January 1, 2009 in respect to the Statement Services Project under which the Organization committed to pay $373,500 USD over the five year contract.

Commitments in each of the next five years are as follows:

in thousands of dollars	
2009	707
2010	721
2011	736
2012	752
2013	767

b) CELERO

Celero has entered into a *Software License Agreement* in respect of a banking platform for Celero's credit union clients under which Celero is committed to pay $21,119,000 in software license fees over the next seven years. Celero is also committed under the terms of the agreement to pay a total of $23,833,000 in software maintenance fees over the next seven years. Celero has entered into agreements with credit unions to recover these costs through operating fees over the term of these agreements.

Pursuant to various addendums to the *Software License Agreement*, Celero is also committed to pay $10,504,000 in ancillary product maintenance and support fees over the next seven years.

Celero has obligations under various agreements for equipment, licensing, maintenance and professional fees.

The Organization is indirectly liable in proportion to its ownership interest 25.3% (2007 — 25.3%) in Celero, for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next five years are as follows:

in thousands of dollars	Banking Platform	Ancillary Products	Infrastructure Upgrades	Other	Total
2009	763	381	1,719	635	3,498
2010	763	381	1,493	466	3,103
2011	763	381	657	212	2,013
2012	763	381	448	—	1,592
2013	763	381	238	—	1,382

Effective January 1, 2009, the Organization's ownership interest increases from 25.3% to 31.4%. Accordingly the Organization will be indirectly liable in proportion to its revised ownership interest of 31.4% for all of Celero's covenants and obligations under the above agreements.

c) EVERLINK

Celero has a 49% ownership interest in Everlink. In proportion to its 25.3% ownership interest in Celero, the Organization is indirectly liable for all of Celero's covenants and obligations under the following Everlink agreements.

Purchase of Switching Business

Under the terms of an *Asset Purchase Agreement*, Everlink acquired switching assets from third parties ("Vendor"). Everlink's principal remaining obligations under the purchase agreement are to continue to perform certain assumed obligations relating to customer and supplier contracts assigned to Everlink by the Vendor. These obligations expire in 2012.

Similar obligations exist under ancillary service agreements with the Vendor to provide switching services to the Vendor's customers, which expire in 2013.

Celero has provided a guarantee on these agreements in proportion to its ownership interest (49%) in Everlink. In the normal course of business, Everlink has met, and is expected to meet, all of its obligations under these agreements.

Financing Arrangements

Everlink has entered into financing agreements, consisting of a line of credit to a maximum of $2,000,000 and an authorized overdraft facility to a maximum of $6,375,000 Canadian dollars and $100,000 US dollars. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2008, there were no draws against the line of credit or the authorized overdraft facility.

[14] Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

[15] Risk management

The Organization's primary financial objective is to provide liquidity to Manitoba's credit unions. The Organization views risk as an integral part of its development and the diversification of its activities. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of member value. For the Organization, this means striking a balance between return and risk.

In the normal course of business, the Organization is primarily exposed to the financial risks described below:

Credit Risk — Risk of a financial loss if an obligor does not fully honour its contractual commitments to the Organization. Obligors may include issuers of securities, counterparties or borrowers;

Liquidity Risk — Risk that the Organization will be unable to honour cash commitments without resorting to costly and untimely measures; and

Market Risk — Risk of a financial loss resulting from unfavourable changes in underlying market factors, primarily interest rates and foreign exchange rates.

Risk management framework

The Organization's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, to monitor the risks, and adherence to limits by means of reliable and up-to-date information systems. The Organization follows a risk management framework which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Organization regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management and management report to the Board on compliance with the risk management policies of the Organization. In addition, the Organization maintains an Internal Audit function which is partly responsible for independent review of risk management and the Organization's control environment.

Financial instruments comprise the vast majority of the Organization's assets and liabilities. The Organization accepts current and term deposits from member credit unions at both fixed and floating rates, as applicable, for various periods and seeks to earn an interest rate margin by investing these funds in securities and derivatives which provide both fixed and floating rates, as applicable. The primary types of financial risk which arise from this activity are interest rate risk, foreign exchange risk, credit risk and liquidity risk.

The following table describes the significant financial instrument activities undertaken by the Organization, the exposure to risks associated with such activities and the objectives, policies and processes used in managing those risks.

Financial instrument activity	Risks	Risk management
Fixed rate debt securities — held for trading	Interest rate risk, credit risk and foreign exchange risk	Asset-liability matching, credit risk monitoring and use of derivative financial instruments
Fixed rate debt instruments matched to equity — held to maturity	Interest rate risk, credit risk and foreign exchange risk	Asset-liability matching and credit risk monitoring
Intermediation pool investments	Interest rate risk and credit risk	Asset-liability matching and credit risk monitoring
Members' deposits	Liquidity risk, interest rate risk and foreign exchange risk	Asset-liability matching

Credit risk

Credit risk represents the most significant risk facing the Organization in the normal course of business. The Organization is exposed to credit risk primarily through its Liquidity and Intermediation Pool investments, including its derivative financial instruments. The Organization serves as a source of liquidity for member credit unions. As such, all of the assets in the Liquidity Pool are readily convertible into cash. The financial assets recognized in the balance sheet represent the Organization's maximum exposure to credit risk as at the balance sheet date.

In managing credit risk, the Organization primarily relies on external rating agencies (primarily DBRS or its equivalent) for Liquidity Pool investments. The Organization has quantified investment parameters which are monitored daily to ensure compliance with policy is maintained. The Organization does not invest in third party asset backed commercial paper. The Organization may only enter into financial instruments as follows:

Derivative financial instruments:

- Counterparties to derivative financial instruments must be R-1 (mid) or R-1 (High), or the equivalently rated Schedule I banks

Liquidity Pool investments:

- Generally, for investments maturing within 13 months, the minimum short term credit rating is R1-Low, or an equivalent minimum bond credit rating of A
- Generally, for investments maturing beyond 13 months and within 5 years, the minimum credit rating is AA (low)

In addition to defining minimum credit rating for all individual investments, aggregate limits exist to mitigate risks. The maximum composition of the Liquidity Pool investments is as follows:

Short-term/bond rating	Maximum composition
R-1 (High)/AAA	100%
R-1 (Middle)/AA(Low)	80%
R-1 (Low)/A	20%

Furthermore to reduce credit risk, the Organization has diversification policies related to economic sectors and certain maximum individual security limits based on credit rating. The significant policies by economic sectors are as follows:

Sector	Maximum composition	Short-term credit rating	Bond credit rating
Government of Canada	100%	n/a	n/a
Provincial Government	75%	AAA – BBB	R1 (High) – R2 (High)
Municipal Government	20%	AAA – A	R1 (High) – R1 (Low)
Schedule I Banks	80%	AAA – A	R1 (High) – R1 (Low)
Schedule II Banks and Investment Broker Dealers	10%	AAA – AA	R1 (High) – R1 (Mid)
Asset Backed Securities	50%	AAA – A	R1 (High) – R1 (Low)
All Other Corporate	50%	AAA – A	R1 (High) – R1 (Low)
Total ABS and Other Corporate	85%	AAA – A	R1 (High) – R1 (Low)

The maximum investment term for each instrument must not exceed five years unless the investment is:

- specifically matched against a member deposit maturing beyond five years;
- matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate;
- retractable at the Organization's option within 5 years; or
- a callable bond issued by Schedule I banks which pays a fixed rate for a term not exceeding five years and coverts to a floating rate instrument thereafter.

Intermediation Pool investments:

- Regardless of its credit rating, the Organization is committed to investing in CUCC as required.
- Other investments in co-operatives, Celero, and mortgages and loans require approval by the investment committee of the Board of Directors where credit risk is assessed.
- Loans and overdrafts to member credit unions are secured by a Global Loan agreement which specifies that the Organization holds a security interest in all book debts and accounts. In the event of default, the Organization is authorized to realize on all security and apply the proceeds there from to its amount receivable.

Liquidity risk

The Organization's primary objective is to manage liquidity so as to ensure it is able to honour its commitments to member credit unions. This is done primarily by implementing a policy framework, approved by the Board of Directors, which establishes maximum asset/liability mismatches.

The Organization ensures that its Liquidity Pool investments are liquid and are appropriately matched to members' deposits as follows:

Term over 13 months

- Unmatched members' deposits and Liquidity Pool investments beyond 13 months are prohibited

Term of 180 days to 13 months

- Members' deposits must be specifically matched to Liquidity Pool investments of a similar term, however unmatched financial instruments maturing in 270–394 days and 180–269 days shall not exceed 2% and 4%, respectively, of the Liquidity Pool investments.

Term of less than 180 days

- Members' deposits and Liquidity Pool investments maturing within 180 days must be matched within 15 days based on the weighted average term to maturity of the respective financial instruments.

The Organization also utilizes repurchase agreements to obtain an additional source of liquidity. Under the repurchase agreements the Organization has pledged certain liquidity pool financial assets with a fair value of $263,591,000 as security for the obligation under repurchase agreements. The security is pledged under the usual terms that provide, among other things, that the Organization bear the risks and rewards related to the security and the pledged assets be returned upon cessation of the specific agreement.

The contractual maturity of financial liabilities including members' deposits and obligations under repurchase agreements as at December 31, 2008 is as follows:

	Maturity							
in thousands of dollars	Payable on demand	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
Fair value	463,078	930,480	325,868	101,748	69,795	96,475	13,810	2,001,254
Contractual amount payable at maturity	463,078	929,276	325,921	101,399	69,541	97,850	13,831	2,000,896

The change in fair value of members' deposits relates to changes in market conditions and do not relate to changes in the Organization's credit risk.

Foreign exchange risk

The Organization manages foreign exchange risk to minimize the risk of financial loss due to fluctuations in exchange rates. This is done primarily by implementing a policy framework, approved by the Board of Directors, which establishes maximum US dollar asset (liability) mismatches of US$250,000. The Organization enters into foreign exchange forward rate agreements, subject to credit risk policies, for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for member credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes. The net US dollar asset (liability) mismatch as of December 31, 2008 was $(67,000).

As at December 31, 2008, the Organization has entered into foreign exchange forward rate agreements to buy U.S. dollars aggregating U.S. $73,524,000 and to sell U.S. dollars aggregating U.S. $40,854,000, inclusive of transactions with member credit unions. The credit risk associated with these agreements is the responsibility of the Organization.

As at December 31, 2008, if the Canadian dollar had strengthened or weakened by 1% relative to the U.S. dollar, with all other variables held constant, after tax net income for the year would have increased or decreased by a nominal amount, respectively.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Organization's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial Margin reported in the Statement of Operations may increase or decrease in response to changes in market interest rates. Accordingly, the Organization sets policy limits, approved by the Board of Directors, on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Organization's management who is responsible for managing interest rate risk.

In managing interest rate risk, the Organization relies primarily upon use of asset-liability and interest rate sensitivity models. Periodically, the Organization may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Organization's financial instruments. The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate re-pricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

The following summarized schedule shows the Organization's sensitivity to interest rate changes:

in thousands of dollars (notional values)

Interest repricing period	Interest sensitive	Not interest sensitive	Swaps Receiving	Swaps Paying	Net asset/liability mis-match
0 to 6 months	(659,478)	(41,835)	723,573	(21,519)	741
6 to 12 months	34,845	(15,768)	—	(30,000)	(10,923)
1 to 2 years	55,992	(10,927)	—	(43,000)	2,065
2 to 3 years	138,256	(21,451)	—	(116,125)	680
3 to 4 years	380,930	(22,025)	—	(351,500)	7,405
4 to 5 years	146,719	(35,250)	—	(111,429)	40
Over 5 years	49,992	—	—	(50,000)	(8)
	147,256	(147,256)	723,573	(723,573)	—

The weighted average interest rate for interest-bearing assets is 4.85% and for interest-bearing liabilities is 3.84%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Organization has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The contracted terms of the swaps are specifically matched to specific terms of debt securities. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the member credit unions. The credit risk associated with the index-linked agreements is the responsibility of the Organization.

Sensitivity analysis is used to assess the change in value of the Organization's financial instruments against a range of incremental basis point changes in interest rates. Based on current differences between financial assets and financial liabilities as at December 31, 2008, the Organization estimates that an immediate and sustained 25 basis point increase in interest rates would increase net interest income by $324,000 over the next 12 months while an immediate and sustained 25 basis point decrease in interest rates would decrease net interest income by $330,000 over the next 12 months.

[16] Capital management

Capital is managed in accordance with policies established by the Board of Directors and OSFI. Management regards a strong capital base as an integral component of the Organization's strategy. The Organization has a capital plan to provide a long-term forecast of capital requirements. The Organization also has a monthly capital adequacy assessment through which management performs an early financial statement close process to assess compliance with OSFI externally imposed capital ratios. The Organization's stated objective for its borrowing multiple, the ratio of debt to regulatory capital, is a 17.5: 1 ratio. Pursuant to OSFI regulations, the Organization is required to maintain a borrowing multiple of 20: 1 or less. The Organization defines regulatory capital as the sum of its stated share capital and deficiency reduced by assets specifically identified by OSFI's regulations. Specific reductions include future income tax assets and unrecognized losses on the Organization's held to maturity liquidity pool debt security portfolio.

All of the elements of capital are monitored throughout the year. The Organization has a clear and unencumbered process to access required capital from its member credit unions to attain certain capital ratios generally through a 15 day notification process or in unusual circumstances an emergency capital call and corresponding immediate reduction in members' deposits. The Organization also makes periodic dividend payments on members' equity, within the context of its overall capital management plan.

On November 1, 2008 the Organization implemented a new treasury system. One of the outputs of the new system is measuring the fair value of the Organization's financial assets and liabilities. As of December 31, 2008, the information related to the fair value of the Organization's financial liabilities provided by the new treasury system was inaccurate and had the effect of understating the fair value of the Organization's members' deposits. As a result, upon correction of the member deposit fair values, the Organization was not in compliance with the required OSFI borrowing multiple. Subsequent to year end revised procedures and processes for calculating the fair value of member deposits were implemented.

The Organization filed its annual OSFI return for the year ended December 31, 2008 on February 26, 2009.
At December 31, 2008, the Organizations' borrowing multiple was 22.37: 1 (2007 — 18.25: 1).

[17] Subsequent Events

Member credit unions had sufficient funds on deposit with the Organization to address OSFI's capital adequacy requirements as at December 31, 2008. The capital adequacy shortfall was the result of a technical deficiency related to the calculation of the fair value impact of the Organization's member deposits portfolio as at December 31, 2008.

In February 2009, the Organization revised its stated objective for its borrowing multiple from 17.5: 1 to 16.5: 1, strengthening the Organization's capital position. This revision will provide greater flexibility in turbulent market times such as those experienced in fiscal 2008.

In February 2009, the Organization secured additional capital from its member credit unions to meet the new capital adequacy objective.

[18] Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Dedicated to serving Manitoba

The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

Dan Biles System Credit Manager, Credit Union Central of Manitoba
Ray Howell Marketing Co-ordinator, Westoba Credit Union
Brenda Palmer Proof Clerk II, Credit Union Central of Manitoba
Ralph Rasmussen Director, Starbuck Credit Union
Elaine Schaan Member Service Representative, Portage CU

Mark Bryce Manager Agricultural Lending, Westoba Credit Union
Larry Cox Manager Deposit Services, Westoba Credit Union
Nancy Dubicki Loans Manager, Crosstown Civic Credit Union
Deb Durham Branch Manager, SunRise Credit Union
Clare Hoggins Commercial Loans Officer, Crocus Credit Union
Josie McKenzie Corporate Administration, Celero Solutions

Brian Deutscher VP Marketing and Human Resources, Westoba CU
Bruce Fink Chief Financial Officer, Cambrian Credit Union
Laurel Laniuk Assistant Corporate Secretary, CUCM
Myrna Neufeld Mail/File Room Clerk, Steinbach Credit Union
Brian Peto VP Business Services, Credit Union Central of Manitoba
Ron Siemens General Manager, Rivertion Credit Union
Peggy Vigfusson Director, Rivertion Credit Union

Credit Union Central of Manitoba Limited

Incorporated in 1950 by Statute of
the Province of Manitoba, Canada

CREDIT SOCIETY / AGENT BANK

Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS

PricewaterhouseCoopers LLP

SOLICITORS

PITBLADO LLP

CONSULTING ECONOMISTS

Dr. Michael Benarroch
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Dr. Brian Oleson

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